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Corporate Social Responsibility

Corporate Social Responsibility and its effect on image and reputation:

The case of L'Oréal and its acquisition of The Body Shop

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Abstract

This paper studies the effect of Corporate Social Responsibility (CSR) on image and reputation in the case of L'Oréal and its acquisition of The Body Shop.

L'Oréal was suffering from negative headlines claiming that its products were animal tested and they expected that the acquisition of The Body Shop in 2006 would change this image.

This study investigates whether CSR practices of The Body Shop helped L'Oréal to rebound from the negative headings. Using a sample of 321 respondents for The Body Shop and a sample of 289 respondents for L'Oréal, it is concluded that CSR is an important factor for a company's success since the results show that CSR campaigns have a statistically significant impact on a company's reputation and image. Since a CSR strategy is the key to success, this paper ends with recommendations to successfully implement CSR strategies.

Keywords: Corporate Social Responsibility, Mergers and Acquisitions, Customer Perceptions, Corporate Image, Corporate Reputation

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1. Introduction

“The brands that will be big in the future will be those that tap into the social changes that are taking place.”¹

Sir Michael Perry, Chairman of Centrica PLC

In order to create a sustainable competitive advantage, corporate social responsibility (CSR) activities as well as mergers and acquisitions play an important role. Firstly, CSR, referring to *“the ongoing commitment of businesses to voluntarily engage in ethical behavior and developing economically while at the same time offering an enhanced quality to all its stakeholders”*, is becoming more and more important for today’s corporations (Porter & Kramer, 2006). According to Werther & Chandler (2001), CSR has an influence on all aspects of a company’s corporation. Therefore, more and more companies are becoming aware of the fact that CSR can positively contribute to its image and reputation. Further, due to the fact that businesses generate prosperity and welfare in society, CSR is emerging and becoming crucially important for both – business and societal success (Werther & Chandler, 2001; Porter & Kramer, 2006).

Whereas traditional business models mostly focus on economic aspects of a corporation such as profit and growth, modern models emphasize on social and environmental effects of actions. Scandals in the past such as testing products on animals called for the focus on and importance of CSR. In today’s world, wrong behavior is communicated within a short time to the world via the World Wide Web and broadcasted by media. Thus, companies need to act socially responsible rather than just pretend environmental consciousness in order to be competitive.

A further trend over the last 30 years can be noticed: Mergers and acquisitions (M&A) have increased incessantly (DePamphilis, 2005) due to various influential factors. Operating synergies including the combination of skills and resources of both partners as well as spreading fixed costs are key drivers for companies to merge or to acquire a company in order to benefit from economies of scale and scope. More generally spoken, reasons to opt for M&A comprise market, cost, competitive or governmental factors (Child et al., 2001).

In the past, L’Oréal has been in negative headlines stating that the company tested its products on animals. At that time the damage seemed to be irreversible. L’Oréal

¹ <http://www.interpraxis.com/quotes.htm> (2006-11-26)

acquired The Body Shop in 2006, which became the first international cosmetic company to receive an award from the Human Cosmetic Standard for their “Against Animal Testing” policy in 1997, expecting to improve its image and reputation. Therefore, this paper examines whether this helped L’Oréal to rebound from the negative headlines, also to see if this would have potentially hurt the image of The Body Shop.

The purpose of this paper is to research whether CSR can be obtained by acquiring a company with a strong CSR strategy or if this acquisition dilutes the image of both – the acquiring and the acquired brand. Further, the aim of this paper is to examine the effects of CSR on corporate image and reputation in order to support evidence that CSR cannot be bought but has to be strategically implemented by developing a suitable CSR plan for a company. This study focuses on the German market, which is one of the largest in Europe. Summing up, three main aims of research can be defined: The study of relevant literature in order to understand the effects of CSR, the analysis of a conducted survey to understand the current and potential customer’s perception of L’Oréal and of The Body Shop and the development of recommendations for L’Oréal to improve its image and reputation.

2. Literature review

2.1 Definition: Corporate Social Responsibility and Strategic Corporate Social Responsibility

According to Franklin (2008 cited in Amaeshi et al, 2006) corporations are getting more and more aware of the importance of an implemented CSR strategy. When talking about CSR, there is no single, commonly believed definition of the concept of CSR. According to Brown (2006 cited in Amaeshi et al, 2006), CSR is a responsibility that companies accept for “*the environment, for their engagement in their local communities*” and for understanding that image and reputation of a brand not only depend on factors including “*quality, price and uniqueness but on how, cumulatively, they interact with companies workforce, community and environment*”. In short, Werther and Chandler (2001), define CSR as the role of the corporation in the society with which it interacts.

Implying the four dimensions economic, legal, ethical, and discretionary concerns that stakeholders view as directly connected to the firm’s plans and operations, CSR is

further regarded as means for *“improving the quality of life or well-being of society”* (i.e. the philanthropic dimension of CSR, Carroll, 1991) and for *“obeying the society’s codification of right and wrong”* (i.e. the legal dimension of CSR, Carroll, 1991). Based on their review of the recent status of the theory of CSR, Vaaland et al. (2008) further define CSR as the *“management of stakeholder concern for responsible and irresponsible acts related to environmental, ethical and social phenomena in a way that creates corporate benefit.”*

To sum up, CSR can be defined as *“a commitment to improve community well-being through discretionary business practice and contribution of corporate resources”*, where communities’ well-being refers to human conditions and environmental issues (Kotler and Lee, 2005).

Concerning Strategic CSR, it is defined as *“the incorporation of the stakeholder perspective within a company’s strategy and everyday operations in order to maximize economic values on the one hand and social values on the other hand over the long term by focusing on a corporations’ expertise”* (Werther & Chandler, 2001). One widely accepted way to for corporations to benefit from addressing social and environmental concerns derives from Porter and Kramer (2006) saying that CSR should be undertaken in a strategic way by contributing to social and environmental actions merely if they allow measurable business paybacks. Further, Porter and Kramer (2006) say that imitating other corporation’s strategic CSR *“best practices”* would result in negative results. Thus, effective strategic CSR needs a deep analysis of each corporation’s cultural background, resources and strategic opportunities in order to contribute to a corporations’ value chain and to improve its competitiveness.

2.3 Definition: Mergers and Acquisitions

Corporations are opting for mergers and acquisitions due to the increasing competitive environment demanding for expansion. Opposing to cooperative agreements and joint ventures, M&As’ represent options aiming at integration. Child et al. (2001) define acquisitions as a *“shift of controlling ownership of a company that is taken over by another company by either sharing purchases as well as asset purchases.”* The acquired firm can still exist as a legally owned subsidiary of the acquiring company, as seen is the case on The Body Shop’s acquisition by L’Oréal. Acquisitions can mean that the target’s management is passed over and the shares are purchased against the wishes

of the target company (DePamphilis, 2005). Acquisition strategies are undertaken for variety of objectives. The main reason of acquisition is to achieve greater market power. Further objectives include improving resources and creating efficiencies (Pearce, Robinson, 2007).

According to Child et al. (2001) mergers, by contrast, aim at the “*total integration of two or more partners into a new unified corporation*”. Mergers usually take place if beneficial outcomes are guaranteed for both parties.

Summing up, acquisitions allow a certain degree of choice including the degree of integration, which mergers do not allow. Moreover, acquisitions are mostly known to be unequal partnerships (Child et al., 2001). Concluding, although the terms mergers and acquisitions are often used interchangeably, they involve very different concepts.

3. Analysis of the cosmetic sector

The cosmetic industry is a huge global economy worth about €65 bn today.² L’Oréal is one of the oldest cosmetic brands competing with Revlon, Avon, Procter & Gamble and Estee Lauder. It is the global leader in the beauty market holding a market share of 12 % according to Euromonitor International.

In the past, the cosmetic industry has received much criticism for unethical and non-environmentally friendly business practices (Coste, 2010). Growing concerns about environmental issues affect the cosmetic industry nowadays. Due to the competitive environment including consumers who want greener products and retailers introducing a Sustainability Index such as Wal-Mart, the cosmetic industry is making efforts in becoming a “*good corporate citizen*”.³ Nowadays corporations are not only focusing on its profits and growth anymore but also on the environment. Whether sustainability has always been part of a brands’ strategy or not, a trend that corporations demonstrate their environmental consciousness can be noticed. Unilever, Nuxe and La Prairie are only a few examples of brands being concerned about environmental issues reacting towards the issues that potential and current customers are concerned about.⁴ In 2009, Find/SVP (a New York survey group) cited three main issues that customers were concerned

² www.cosmeticsbusiness.com/technical/article_page/Year_in_review_2010/58921

³ www.german-business-portal.info/GBP/Navigation/en/Business-Location/Manufacturing%20Industries/cosmetics-industry,did=326090.html?view=renderPrint

⁴ www.german-business-portal.info/GBP/Navigation/en/Business-Location/Manufacturing%20Industries/cosmetics-industry,did=326090.html?view=renderPrint

about which were the following: animal rights and species preservation, availability of clean air and water, and waste management.

Looking at the market, USA is the biggest market for cosmetics in the world, but France is the biggest exporter of cosmetic products worldwide.⁵ Market growth has moved from the western part of the world to developing regions in South America, Eastern Europe, and Asia especially China; accounting for an consumption more than 10.4% CAGR in 2008 (Kumar, 2009). Since 2005 there has been a positive growth in the European cosmetic market from which the German market also profited.⁶ Being the largest cosmetic market in Europe after France, Italy, UK and Spain, German consumers spent €12.8 bn on personal care in 2010 having a per capita spending of € 156.87. Comparing the different segments, hair care products are the biggest single market accounting for €2.97 bn while all sub-markets are writing red numbers due to the launch of large volume low cost packages for instance.⁷

Concluding, a trend towards green business can be noticed. Cosmetic corporations are not only concerned about *selling beauty* but also about environmental issues.

4. Company Background: L'Oréal and The Body Shop

L'Oréal being the world's leader in the cosmetic industry started as a haircolour manufacturer in 1907.⁸ Nowadays, the company develops innovative products to meet the different needs of customers in 130 countries worldwide having a focus on research from the beginning on. L'Oréal comprises a vast brand portfolio with more than 30 brands having annual sales higher than 50 million Euros and being organized in five different product categories: Consumer products (L'Oréal Paris, Garnier, Maybelline New York, Softsheen-Carson, Club de créateurs de beauté), professional products (L'Oréal Professionnel, Kérastase, Redken, Matrix, Pureology, ShuUemura Art of Hair, Mizani, Keraskin Esthetics), luxury products (Lancome, Giorgio Armani, Yves Saint Laurent, Victor & Rolf, Diesel, Biotherm, Kiehl's, Ralph Laurent, Cacharel, Helena Rubinstein, Maison Martin Margiela), active cosmetic products (Vichy, La Roche-Posay, Innéov, Roger&Gallet, Sanoflore, SkinCeuticals) and The Body Shop. Looking at the diversified product portfolio, it can be noticed that L'Oréal has grown through

⁵ Global Insight, Inc., A study of the cosmetic industry, 2009

⁶ Global Insight, Inc., A study of the cosmetic industry, 2009, p.7

⁷ [www.german-business-portal.info/GBP/Navigation/en/Business-Location/ Manufacturing%20 Industries/ cosmetics-industry,did=326090.html?view=renderPrint](http://www.german-business-portal.info/GBP/Navigation/en/Business-Location/Manufacturing%20Industries/cosmetics-industry,did=326090.html?view=renderPrint)

⁸ http://www.loreal.com/_en/_ww/html/our-company/welcome.aspx

acquisitions. L'Oréal divided its brands into different groups allowing the company to reach all customers and distribution channels from the mass market to the hair salons and pharmacies. Further, L'Oréal employs more than 66.600 people worldwide, has 14 research centers including locations in France, America and Asia being responsible for the registration of hundreds of patents per year. Women represent 55% of the research workforce at L'Oréal - a percentage that no other company in the industry has reached.⁹ Although being the world leader, L'Oréal suffered from anti-L'Oréal campaigns claiming that its products were animal-tested. The destroyed image seemed to be irreversible; therefore L'Oréal decided to strategically acquire The Body Shop – a brand known for its social responsibility.

The Body Shop was founded in Brighton, United Kingdom in 1976 by Anita Roddick. From the very beginning onwards, activities of the Body Shop were accompanied by strong social and environmental engagements. Producing natural soap and lotion, The Body Shop always followed policies against animal testing, supported community trade, defended human rights and followed environmentally friendly production and recycling policies (Body Shop Homepage; Clifton and Maughan, 2000). All products are claimed to be natural and without the support of animal testing (Mirvis, 1994). On March 17, 2006, The Body Shop announced that it had agreed to be acquired by the L'Oréal for US\$ 1.14 bn.¹⁰ With the acquisition of The Body Shop International in 2006, L'Oréal's aim was to demonstrate its consciousness about the importance of acting socially and environmentally responsible expecting to change its negative image and reputation.

5. The case: A controversial makeover: The acquisition of The Body Shop by L'Oréal

"It is ironic that a company (The Body Shop) well-known for its animal testing stance sells-out to one (L'Oréal) that tests on animals and which has not shown no commitment to any ethical issues at all. "

Consumer Magazine, 2006

The Body Shop was seen by many people as *"the pioneer of modern CSR"*, being known for the social engagement of its founder Anita Roddick (Edvardsson, Enquist, 2008). Thus, the acquisition by L'Oréal led to harsh criticism. Since it was founded in 1976, The Body Shop, being one of the first companies publishing a Values Report in

⁹ L'Oréal Sustainability report, 2008 available at www.loreal.com/_en/_ww/pdf/LOREAL_RDD_2008.pdf

¹⁰ www.guardian.co.uk/business/2006/mar/17/retail.money

1996, had its core values including developing community trade, building self-esteem, campaigning for human rights, protection of the planet and not testing on animals (Figure 1) allowing The Body Shop to develop a loyal customer base sharing the values of the company which are also anchored in its mission statement (Figure 2) as the following tables represent.

<i>Values of The Body Shop</i>
<ul style="list-style-type: none"> • “To dedicate our business to the pursuit of social and environmental change.” • “To creatively balance the financial and human needs of our stakeholders: employees, customers, franchisees, suppliers and shareholders.” • “To courageously ensure that our business is ecologically sustainable: meeting the needs of the present without compromising the future.” • “To meaningfully contribute to local, national and international communities in which we trade, by adopting a code of conduct which ensures care, honesty, fairness and respect.” • “To passionately campaign for the protection of the environment, human and civil rights, and against animal testing within the cosmetics and toiletries industry.” • “To tirelessly work to narrow the gap between principle and practice, whilst making fun, passion and care part of our daily lives.”

Figure 1: Values The Body Shop¹¹

<i>Mission Statement of The Body Shop</i>
<p><i>“Against animal testing:</i> We consider testing products or ingredients on animals to be morally and scientifically indefensible.”</p> <p><i>“Support community trade:</i> We support small producer communities around the world who supply us with accessories and natural ingredients.”</p> <p><i>“Activate self esteem:</i> We know that you’re unique, and we’ll always treat you like an individual. We like you just the way you are.”</p> <p><i>“Defend human rights:</i> We believe that it is the responsibility of every individual to actively support those who have human rights denied to them.”</p> <p><i>“Protect our planet:</i> We believe that a business has the responsibility.”</p>

Figure 2: Mission statement The Body Shop¹²

Being acquired by L’Oréal, a company that was regarded by activists as the “*face of present consumerism*”, as a company that sold products being animal-tested, that

¹¹ http://www.thebodyshop.com/_en/_ww/values-campaigns/our-values.aspx

¹² http://www.thebodyshop.com/_en/_ww/services/aboutus_company.aspx

demoralized the sexuality of women and that sold its products by making women self-doubting led to harsh criticisms. Customers felt betrayed as they felt that the company traded with its core ethical values.¹³ Further the fact, that Nestlé, one of the most boycotted companies in the world due to doing business without ethical commitment and further due to promoting milk products in developing countries in an insistent way, owned 26 percent of L'Oréal led to people calling for a boycott of The Body Shop's products.¹⁴

Analysts also reacted with skepticism towards the acquisition. They feared that The Body Shop's image would be diluted losing its competitive advantage of having a strong CSR strategy just because L'Oréal was trying to improve its image by "buying CSR" through this acquisition.¹⁵

Anita Roddick defended the acquisition by saying that L'Oréal would not dilute The Body Shop's principles. Instead the acquisition would give The Body Shop a chance to broaden its values to L'Oréal while L'Oréal announced at the same time that The Body Shop would continue to function as an independent subsidiary.¹⁶

6. Financial performance of L'Oréal and The Body Shop after the acquisition

The acquisition of The Body Shop by L'Oréal was seen with skepticism. Although the acquisition meant plenty of potential growth opportunities by addressing different customer needs through access to new markets and access to natural products, for instance, analysts feared that The Body Shop's corporate culture was not in line with L'Oréal's one.¹⁷ In 2008, two years after the acquisition, L'Oréal had to suffer from negative financial results. The brand reported a drop down in sales of 2.3 percent.¹⁸ L'Oréal blamed a difficult economic climate, particularly in the fourth quarter, in some of The Body Shop's most important markets such as Great Britain and North America for these poor results due to loosing loyal customers after the acquisition by L'Oréal.¹⁹

¹³ <http://www.allbusiness.com/company-activities-management/company-structures-ownership/16613309-1.html>

¹⁴ <http://www.telegraph.co.uk/news/worldnews/africaandindianocean/zimbabwe/6235566/Nestl-the-worlds-biggest-food-company-and-one-of-the-most-boycotted.html>

¹⁵ Jim Armitage, "L'Oréal Mulls £600m Body Shop Takeover," www.thisismoney.co.uk, February 23, 2006

¹⁶ www.sustainabledevelopment.loreal.com/pdf/downloads/loreal-summary-report.pdf

¹⁷ Jim Armitage, "L'Oréal Mulls £600m Body Shop Takeover," www.thisismoney.co.uk, February 23, 2006

¹⁸ www.loreal-finance.de/site/de/contenu/communiquer.asp?id_page=640

¹⁹ www.cosmeticsdesign-europe.com/Business-Financial/The-Body-Shop-s-woes-cannot-be-blamed-on-the-economic-crisis-alone

Loyal customers left the company as they lost their trust into the brand and its core values.

The acquisition also meant for The Body Shop a decline in sales as the following figure shows:

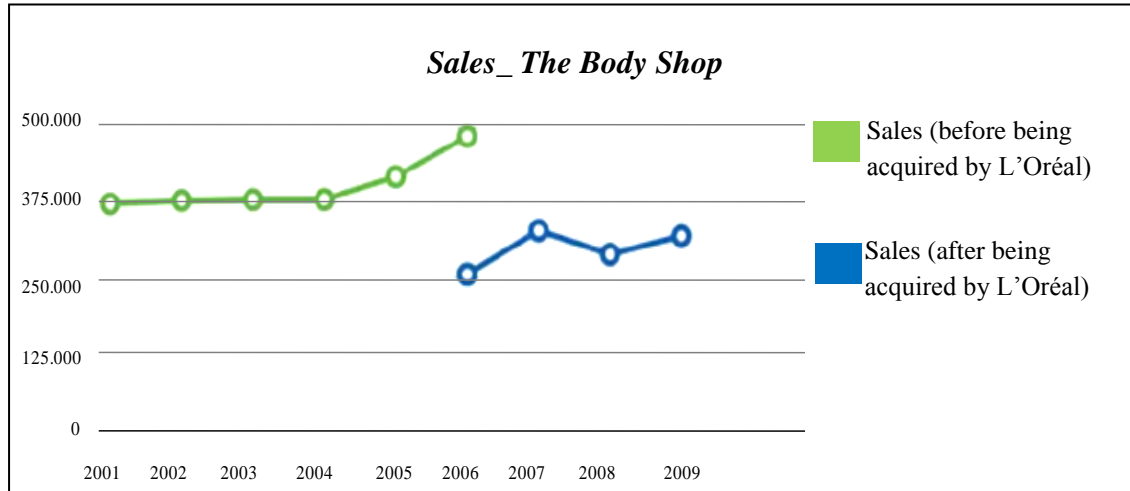


Figure 3: The Body Shop sales over 9 years (Milmo, 2009)

Figure 3 shows that with the acquisition of The Body Shop by L'Oréal sales performance for The Body Shop dramatically declined after being a subsidiary of L'Oreal. Eventually, being acquired by L'Oreal had a negative impact on customer perception and satisfaction in part of environment responsibility which is the key value of The Body Shop (Milmo, 2009) resulting in the decline of sales for both companies.

7. Measurements

In order to examine whether CSR helped L'Oréal to rebound from the negative headings, two surveys were conducted measuring the following five variables: Corporate Image, Corporate Reputation, Attractiveness, Trust, CSR and perceived motives of investing in CSR. In the following, each variable is defined.

7.1 Corporate Image

Corporate image is *“the overall impression the company leaves in the consciousness of its potential and current customers”* (Veljkovic & Petrovic, 2011). Further, it is defined as *“a cognitive generalization resulting from the company's past experience”* (Andreassen & Lindestad, 1998).

Due to the increasing competition in the market, corporate image can be easier destroyed nowadays (Smith, 2003). Consumers may punish corporations for actions that they do not regard as being socially responsible (Smith, 2003). *“Corporate image is a*

result of everything a company does or does not do” (Smith, 2003). Based on an organization’s unique characteristics (Esch et al., 2004), corporate image is the net result of “all experiences, impressions, beliefs, feelings, and knowledge” of potential and current consumers related to a company (Worcester, 2009). Since The Body Shop is known for its strong social and environmental engagement leading to a positive corporate image while at the same time L’Oréal is known for its scandals in the past trying to solve this problem by simply buying CSR through the acquisition of The Body Shop rather than implementing a whole CSR plan, I hypothesize that CSR will have a stronger impact on The Body Shop’s image than CSR on L’Oréal’s image.

Hypothesis 1: CSR will have a stronger impact on The Body Shop’s image than CSR on L’Oréal’s image.

7.2 Corporate Reputation

Corporate reputation is defined as the “*positive or negative perception*” of a corporation’s key stakeholders (Gaines-Ross, 2007) also seen as the “*idea of a corporation’s credibility*” (Doney & Cannon, 1997). It is the potential and current customer’s opinion of a corporation, which develops over time and which is difficult to change once established (Upshaw, p.5) CSR has recently been acknowledged as one of the most important factors in determining corporate reputation (Worcester, 2009). While a strong corporate reputation can provide a competitive advantage (Balmer, 2009), stakeholders are becoming skeptical about a corporations’ reasons for investing in CSR (Vlachos et al., 2009). Corporate reputation has become one of the most valuable intangible assets for a company and CSR is an important key factor for a company’s reputation. Corporations with a strong CSR reputation last longer than a corporation without a social and environmental engagement (Kotler & Lee, 2005). For that reason and since L’Oréal did not engage in CSR but instead tried to buy CSR by acquiring The Body Shop, being known for its strong engagement in CSR, I hypothesize that CSR will have a stronger impact on The Body Shop’s reputation than CSR on L’Oréal’s reputation.

Hypothesis 2: CSR will have a stronger impact on The Body Shop’s reputation than CSR on L’Oréal’s reputation.

7.3 Attractiveness

An attractive brand personality can “*pre-sell the vision before the purchase, reinforce the purchase decision, and help to create an emotional link*” binding the customer to the brand. Once a customer is emotionally linked to a brand, he is more willing to oversee weaknesses of a brand while at the same time searching for strengths of a brand (Upshaw, 1995). L’Oréal was regarded as a company that sold products being animal-tested and that exploited the sexuality of women whereas The Body Shop was related to strong social activism. Therefore, I hypothesize that CSR initiatives will have a stronger positive impact on the attractiveness of The Body Shop than on the attractiveness of L’Oréal since L’Oréal has no integrated CSR plan.

Hypothesis 3: CSR initiatives will have a stronger positive impact on the attractiveness of the Body Shop than on the attractiveness of L’Oréal.

7.4 Trust

Trust is defined as the quality of being reliable and authentic (Swaen &Chumpitaz, 2008). Trust is seen as the most desired feeling customers can have of a corporation. Thus, it is the most important attribute a corporation can have (Delgado-Ballester, 2003). Trust is further the key variable for creating long-term relationships between companies and customers and further for establishing a loyal customer base (Morgan and Hunt, 1994). Alternatively, it can be defined as a set of beliefs (Frisou, 2000), a desire (Chaudhuri and Holbrook, 2001) or a series of collected assumptions about a corporation (Gurviez and Korchia, 2002). Since the total of theoretical and empirical studies reveal that the more consumers have a favorable perception of CSR activities, the more they will trust a company, the following hypothesis is justified.

Hypothesis 4: CSR initiatives will have a stronger positive impact on consumers trust into The Body Shop than on consumer’s trust into L’Oréal.

7.5 CSR scale

CSR can be understood as corporate behaviors. Since there are ongoing debates on the effects and importance of CSR, this variable investigates the consumer’s perception of the intensity of engaging socially responsible. L’Oréal failed to implement a CSR strategy that fits the overall company’s strategy. Instead, the company expected to change its negative image by acquiring The Body Shop with its strong CSR strategy. Therefore, the following hypothesis is justified.

Hypothesis 5: The Body Shop will be perceived to be more socially responsible than L'Oréal is.

7.6 Perceived motives of investing in CSR activities

The perceived motives of investing in CSR activities go along with the variables trust and corporate image. It is reasonable to find out whether consumers perceive the motives of corporations investing in CSR activities for their own publicity or in order to give something back to the society since this allows drawing conclusions whether a corporation has implemented a CSR plan within its strategy rather than pretending to act socially responsible. Since L'Oréal was in negative headlines and tried to acquire CSR by acquiring The Body Shop without developing a CSR plan that fits the whole corporate strategy the following hypothesis is justified.

Hypothesis 6: The consumer's perceived motives of investing in CSR will be more positive for the The Body Shop than for L'Oréal.

The following figure summarizes all hypotheses in correspondence to their variable.

Variable	Hypothesis
<i>Corporate Image</i>	<i>CSR will have a stronger impact on The Body Shop's image than CSR on L'Oréal's image.</i>
<i>Corporate Reputation</i>	<i>CSR will have a stronger impact on The Body Shop's reputation than CSR on L'Oréal's reputation.</i>
<i>Attractiveness</i>	<i>CSR initiatives will have a stronger positive impact on the attractiveness of The Body Shop than on the attractiveness of L'Oréal.</i>
<i>Trust</i>	<i>CSR initiatives will have a stronger positive impact on consumers trust into The Body Shop than on consumer's trust into L'Oréal.</i>
<i>CSR scale</i>	<i>The Body Shop will be perceived to be more socially responsible than L'Oréal is.</i>
<i>Perceived motives of investing in CSR activities</i>	<i>The consumer's perceived motives of investing in CSR will be more positive for the The Body Shop than for L'Oréal.</i>

Figure 4: Summary of hypotheses

8. Methodology

With the definition of the problem, the identification of the variables that need to be investigated and the development of hypotheses, the research can be designed. According to Sekaran (2003), answering research questions is not possible without measuring variables. Hence, different types of scales are applied to measure different variables. Sekaran (2003,) defines scale as *“a tool or mechanism by which individuals are distinguished as to how they differ from one another on the variables of interest”*. There are four basic types of scales, including nominal, ordinal, interval, and ratio. For this study, three are used in the conducted surveys being defined in the following in order to find meaningful answers to the above stated hypotheses. Nominal scale in the questionnaire is mainly used in order to gather personal data such as gender and age. In order to measure the different perceptions of potential and current customers, most of the questions are of an interval scale with a five-point scale where the respondents assigned a certain point for each question. Ordinal scale is used at the end of the questionnaire, asking the customers for their perceived motives of either L’Oréal or The Body Shop investing in CSR.

The acquisition of The Body Shop by L’Oréal represents the practical case of trying to buy a CSR strategy by acquiring a company that has a strong CSR strategy rather than developing an appropriate CSR plan for the whole corporation fitting in its corporate culture. This study therefore analyzes the potential and current customer perceptions of L’Oréal and of The Body Shop. In order to gather representative data concerning the consumers’ perception of The Body Shop on the one hand and of L’Oréal on the other hand, two surveys were conducted. Each survey applied was composed by multiple choice questions, focusing on different variables: Corporate image, corporate reputation, trust, attractiveness, CSR scale and the customer’s perceived motives of investing in CSR activities of L’Oréal and The Body Shop investing in CSR activities. It has to be mentioned that both surveys were composed of the same questions but one for L’Oréal and one for The Body Shop.

In this study correlations are analyzed in order to find out whether the acquisition of The Body Shop by L’Oréal helped L’Oréal to rebound from its negative image or whether it diluted The Body Shops’ image. A correlation is *“a study conducted to identify the important factors associated with the variables of interest”* (Sekaran, 2003, p.125ff).

Moreover, a regression analysis is conducted to test the relationship between CSR and all the outcome variables from both The Body Shop and from L'Oréal. With this regression analysis, the correlations between CSR (as independent variable) and image, reputation, attractiveness and trust (as dependent variables) for both The Body Shop and from L'Oréal are measured. A dependent variable is defined as “*the main variable that lends itself for investigation as a viable factor*” (Sekaran, 2003, p. 88) whereas an independent variable is defined as having a positively or negatively influence on the dependent variable, explaining further its variance. (Sekaran, 2003, p. 88). In this study the effect of CSR represents the independent variable. Thus, this study aims at investigating the effect of CSR on image, reputation, trust and attractiveness.

The study is further a cross-sectional one where the data was collected between September and November 2011 by using two surveys ensuring that the respondents stay anonymous. The study was tested using data collected from a sample of 321 respondents for the survey for The Body Shop and 289 respondents for the survey for L'Oréal in Germany.²⁰ Data analysis was completed with the software program SPSS.

The following tables show the composition of the final respondents for both surveys.

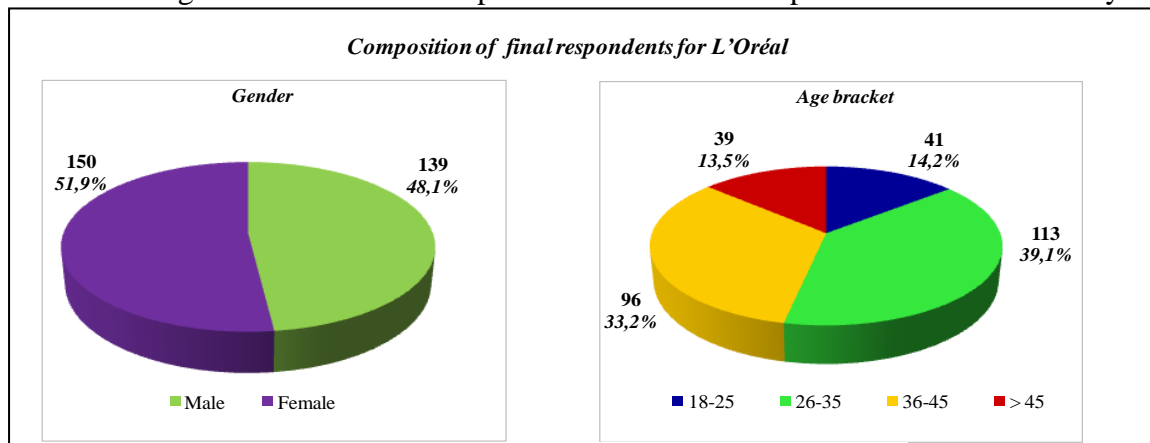


Figure 5: Composition of final respondents for L'Oréal

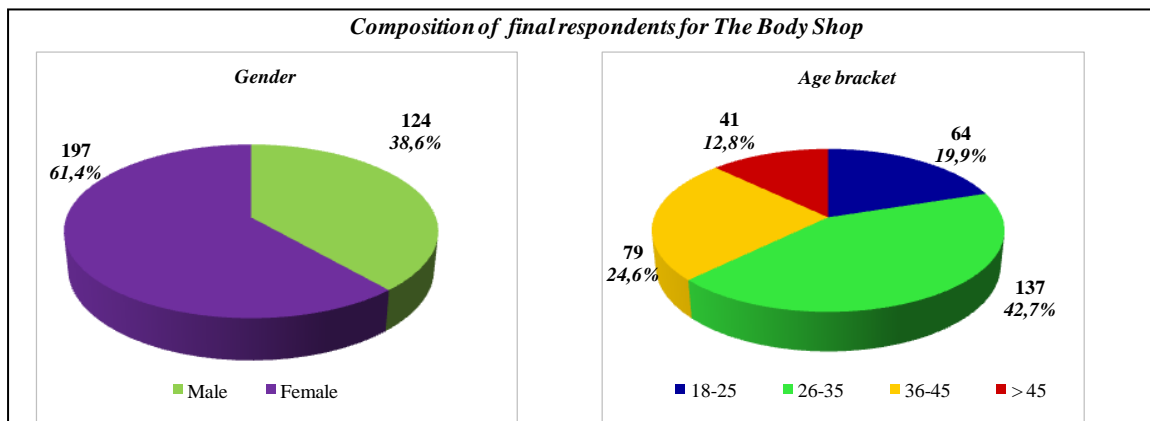


Figure 6: Composition of final respondents for The Body Shop

²⁰ The data were compiled in Germany for reasons of field access.

As Figure 5 and Figure 6 show, most of the respondents for L'Oréal and for The Body Shop are between 26-35 years old which is in accordance to the target group of both brands. Further, in both cases, more women than men answered the surveys. This can be explained by the fact that women have a stronger relation to cosmetics and the beauty industry as a whole than men do.

9. Results

In order to present the analysis and interpretation of the results gathered, each hypothesis is examined in the following.

Firstly, it has to be announced that the reliability and validity of the measurement model was assessed by using calculations of Cronbach's alpha (threshold = 0.7) between 0.770 and 0.968. Looking at the results from the correlations of both surveys, a trend can be seen towards the correlation of CSR and a company's image, reputation, attractiveness and trust. The following tables show a summary of the results for both brands – L'Oréal (Figure 7) and The Body Shop (Figure 8).

<i>Variable</i>	<i>M</i>	<i>SD</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
1 Corporate Image	2.25	.784	(.85)				
2 Reputation	2.62	.911	.59 ^a	(.84)			
3 Attractiveness	2.63	1.036	.48 ^a	.47 ^b	(.77)		
4 Trust	2.14	.966	.34 ^b	.45 ^b	.51 ^b	(.90)	
5 CSR	2.44	.878	.54 ^b	.49 ^b	.61 ^a	.47 ^b	(.96)

Figure 7: Means, Standard Deviations, Scale Reliabilities, Inter-Correlations (N = 289) for L'Oréal

Note: $p < 0.05^a$, $p < 0.01^b$ (two-tailed test)

The analysis of the correlation matrix indicates that the observed relationships were very strong. The strongest relationship is between the variable CSR strategy and the brand's attractiveness ($r = 0.61$) which indicates that the higher the Index of L'Oréal's CSR engagement, the higher the Index of the company's attractiveness. The positive correlation means that as X increases, so does Y; thus, potential and current customers who evaluated L'Oréal's CSR strategy as positive also valued the company's attractiveness as positive. However, looking at the relationships between CSR and Corporate Reputation ($r = 0.49$), CSR and Corporate Image ($r = 0.54$) and CSR and Trust ($r = 0.47$), it can be seen that all relationships are strong indicating that if L'Oréal's CSR strategy was perceived positively, all investigated variables were also perceived as being positive for the company.

Looking at the correlation matrix for The Body Shop, strong relationships can also be noticed (Figure 8).

<i>Variable</i>	<i>M</i>	<i>SD</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
1 Corporate Image	3.14	.783	(.79)				
2 Reputation	3.86	.856	.68 ^b	(.81)			
3 Attractiveness	2.75	.911	.73 ^a	.62 ^a	(.91)		
4 Trust	2.43	1.465	.71 ^b	.72 ^b	.79 ^b	(.81)	
5 CSR	3.97	.825	.64 ^b	.73 ^b	.85 ^a	.69 ^b	(.91)

Figure 8: Means, Standard Deviations, Scale Reliabilities, and Inter-Correlations (N = 321) for The Body Shop

Note: $p < 0.05^a$, $p < 0.01^b$ (two-tailed test)

Figure 8 shows, that the observed relationships for The Body Shop also were very strong. However, the results presented higher correlations for all variables being related to The Body Shop than to L'Oréal.

Further, regression analyses were conducted to examine the relationship between CSR (as independent variable) and image, reputation, attractiveness and trust (as dependent variables) for both The Body Shop and from L'Oréal and to ensure the reliability of the correlations.

Consistent with the expectations, CSR appears then to be positively and significantly correlated with image, reputation, trust and attractiveness. However, the regression analysis shows that CSR has a stronger impact on all the outcome variables of The Body Shop than L'Oréal.

The regression analysis of CSR on image for L'Oréal produced $R^2 = .290$, $p < .001$ whereas the regression analysis of CSR on image for The Body Shop produced $R^2 = .409$, $p < .001$ meaning that the results for both – The Body Shop and L'Oréal are highly significant. Further, there was a higher positive correlation (.64) between CSR activities and the image of the Body Shop than between CSR and L'Oréal's image (.54). Therefore, findings are in line with *H1* saying that CSR will have a stronger impact on The Body Shop's image than CSR on L'Oréal. For both brands there is a positive correlation meaning that CSR impacts the images however, for The Body Shop it takes a higher value. Concerning the regression analysis of CSR on reputation for L'Oréal produced $R^2 = .24$, $p < .001$ whereas the regression analysis of CSR on image for The Body Shop produced $R^2 = .533$, $p < .001$ meaning that the results for both – The Body Shop and L'Oréal are highly significant. Looking at the correlation between CSR and reputation of The Body Shop (.73) and CSR and reputation of L'Oréal (.49), *H2* is justified saying that CSR has a stronger impact on the reputation of The Body Shop than

on the reputation of L'Oréal. *H3* saying that CSR initiatives will have a stronger positive impact on the attractiveness of the Body Shop than on the attractiveness of L'Oréal is proven by comparing the correlations for CSR and attractiveness for The Body Shop (.85) and CSR and attractiveness for L'Oréal (.61). Since the regression analysis of CSR on attractiveness for L'Oréal produced $R^2 = .366$, $p < .005$ whereas the regression analysis of CSR on image for The Body Shop produced $R^2 = .722$, $p < .005$ meaning that the results for both – The Body Shop and L'Oréal are highly significant. Validating *H4*, stating that CSR initiatives will have a stronger positive impact on consumers trust into The Body Shop than on consumer's trust into L'Oréal, also occurs by looking at the correlation coefficient which is .69 for The Body Shop and .47 for L'Oréal. Further, the regression analysis of CSR on trust for L'Oréal produced $R^2 = .229$, $p < .001$ whereas the regression analysis of CSR on image for The Body Shop produced $R^2 = .476$, $p < .001$ meaning that the results for both – The Body Shop and L'Oréal are highly significant.

The results of the regression analysis confirm that L'Oréal is perceived more negatively when talking about CSR than The Body Shop. Further, consumers have a more negative perception of both the image and the reputation of L'Oréal than of The Body Shop and the Body Shop is also perceived as being a more attractive brand than L'Oréal leading to the conclusion that the acquisition of The Body Shop by L'Oréal did not mean a duplication of the success of The Body Shop's CSR strategy.

Comparing the means of the variable CSR, these numbers justify *H5* saying that The Body Shop will be perceived to be more socially responsible than L'Oréal taking the value of $\mu = 3.97$ (agree) for The Body Shop and $\mu = 2.44$ (disagree) for L'Oreal. Finally comparing the perceived motives for engaging in CSR activities *H6* is validated by comparing the means for both brands. Whereas L'Oréal is perceived as engaging in CSR because of wanting to increase its profit in average, The Body Shop is perceived as engaging in CSR in order to give something back to the society. This might be further explanation for the weaker financial performance of The Body Shop after its acquisition by L'Oréal. The results of the study show that potential and current customers still have a more negative perception of L'Oréal than of The Body Shop. Further, it shows that customers neither trust L'Oréal nor The Body Shop. The low trust Index for The Body Shop can be explained by the fact that its customers felt betrayed when L'Oréal acquired The Body Shop and lost their belief in its core values (see Chapter 5). However, the survey shows that generally consumers believe that The Body Shop is

engaging in CSR in order to give something back to the society. However, this might change over time if L'Oréal fails to implement a CSR strategy that fits in the whole corporate strategy.

Apart from analyzing correlations and regressions, Google alerts, Twitter and Blogs were followed from October until the end of December, in order to monitor what users were saying on the web about The Body Shop and about L'Oréal. For L'Oréal reoccurring themes comprised the tests on animals and further criticism for not acting socially responsible. Concerning The Body Shop, although people still talk about the company mainly in a positive way, negative themes such as mistrust and criticism for the acquisition by L'Oréal can be identified. Appendix 3 and Appendix 4 summarize the major reoccurring themes referring to The Body Shop and to L'Oréal.

10. Conclusion

In this work project based on two surveys addressed to consumers and potential consumers of The Body Shop and of L'Oréal we can draw many interesting conclusions that can contribute to the public debate on the importance of CSR for a corporation.

The purpose of this work project is to examine the effects of Corporate Social Responsibility (CSR) on corporate image and reputation in order to support evidence that CSR cannot be bought but has to be strategically implemented by developing a suitable CSR plan for a company. The first conclusion, we can draw from this project is that there is no unique, precise definition of CSR due to the fact that its content and relevance differs among different corporations and probably among different countries.

The results of both surveys show that CSR campaigns have a statistically significant impact on a company's image and reputation. CSR cannot be simply acquired by acquiring a corporation with a strong CSR strategy. Instead, it needs to fit in a corporate culture. L'Oréal camouflaged its problems by acquiring The Body Shop and expecting to simply being able to project The Body Shop's CSR strategy to the whole L'Oréal group. Looking at the financial performance of The Body Shop, there are tendencies that the acquisition by L'Oréal damaged the brand to some extent. Further, the results of the surveys reveal that the consumer's perception of L'Oréal is more negative than the consumer's perception of The Body Shop. It was naïve of L'Oréal to think that CSR could be acquired with the acquisition of The Body Shop since CSR is more than that.

Concluding, it is assumed that L'Oréal did a strategic move by acquiring The Body Shop involving more a cosmetic change rather than a real change. Therefore, based on that, my recommendation for L'Oréal is to develop a CSR strategy fitting L'Oréal's culture being integrated in the whole L'Oréal system. L'Oréal needs to think about its strategy and based on that the company needs to design its communication with its consumers rather than faking social responsibility by simply acquiring a social responsible brand.

Summing up, studies have shown that CSR is essential for facilitating a corporation's image and reputation resulting in a competitive advantage. Therefore, CSR needs to be integrated in a company's culture and strategy rather than being duplicated. It is necessary for a corporation to understand the claim "*Doing well by doing good*" (Byus; Deis and Ouyang, 2010) which implies the fact that strategic CSR adds value for both – business and society. CSR influences external aspects of businesses; therefore, in order to achieve an advantage in today's competitive world, corporations should implement CSR in the overall corporations' strategy.

Last but not least, it has to be mentioned that the limitations of these current results have to be understood. The results are only for the German market, in future studies it would be interesting to investigate different countries. Further, Data can also suffer from single source bias due to consumers and potential consumers answering questions about the dependent and independent variable.

Moreover, as stated before, Google alerts, Twitter and Blogs were followed in order to monitor what users were saying on the web about The Body Shop and about L'Oréal from October until the end of December. However, this only reflects their opinion after the acquisition. In future studies it would be interesting to investigate their opinions before the acquisition and compare both.

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Appendices

Appendix I: Questionnaire_ L'Oréal

Survey: CSR – L'Oréal

It does not matter when, it does not matter where – we are getting in touch with beauty every day in our life. Be part of my study to find out how corporate social responsibility in the beauty industry has an effect on the brand image and reputation itself.

Introduction

Hello, my name is Nathalie Koczor and I am currently student of Masters in Management with a major in strategy at Nova School of Business and Economics. Under the supervision of Professor Joana Story (contact: joanastory@novasbe.pt), I am writing my Master Thesis investigating the impact of Corporate Social Responsibility on image and reputation of L'Oréal.

With your help, I will research in what way Corporate Social Responsibility affects the brand and what actions need to be done in order to successfully implement Corporate Social Responsibility strategies. If you like to participate please click on the button below. Please answer all questions otherwise an evaluation is not possible. I am looking forward to your answers. Thank you very much. Nathalie

1. At first I would like you to indicate whether you are female or male.

- ☐ Female
- ☐ Male

2. How old are you?

- ☐ 18-25
- ☐ 26-35
- ☐ 36-45
- ☐ >45

Variable 1: Corporate Image (*Andreassen and Lindestad, 1998*)

- 3. How satisfied or dissatisfied are you with the way L'Oréal presents itself?
- 4. To what extent do you perceive L'Oréal as customer oriented?
- 5. How positive or negative do you perceive the way in which others speak of L'Oréal?

Variable 2: Corporate Reputation (*Walsh and Beatty, 2007*)

L'Oréal Product range quality

6. L'Oréal stands behind its product range that it offers.
7. L'Oréal is a strong reliable company.
8. L'Oréal offers high quality products.
9. L'Oréal offers products that are good value for the money.
10. L'Oréal develops innovative products.

Social and Environmental Responsibility

11. L'Oréal seems to make an effort to create new jobs.
12. L'Oréal would reduce its profit to ensure a clean environment.
13. L'Oréal seems to be environmentally responsible.
14. L'Oréal appears to support good causes.

Customer orientation

15. L'Oréal seems to care about all of its customers regardless of how much money they spend with them.
16. L'Oréal employs people who are concerned about customer needs.
17. L'Oréal employs people who treat customers courteously.
18. L'Oréal takes customer rights seriously.
19. L'Oréal is concerned about its customers.
20. L'Oréal treats its customers fairly.

Good Employer:

21. L'Oréal seems to be a good company to work for.
22. L'Oréal seems to have excellent leadership.
23. L'Oréal seems to treat its people well.
24. L'Oréal seems to have a management that pays attention to the needs of its employees.
25. It seems that L'Oréal has good employees.
26. L'Oréal seems to maintain high standards in the way it treats its people.
27. L'Oréal seems to be well managed.

Reliable and Financially Strong Company:

- 28. L'Oréal tends to outperform competitors.
- 29. L'Oréal seems to recognize and take advantage of market opportunities.
- 30. L'Oréal looks like it has strong prospects for future growth.
- 31. L'Oréal looks like it would be a good investment.
- 32. L'Oréal appears to make financially sound decisions.
- 33. L'Oréal has a strong record of profitability.
- 34. L'Oréal is doing well financially.
- 35. L'Oréal seems to have a clear vision of its future.
- 36. L'Oréal appears to be aware of its responsibility to society.

Variable 3: Attractiveness (*Sebastian Arendt and Malte Brettel, 2010*)

- 37. I like what L'Oréal stands for, L'Oréal has an attractive identity.
- 38. I recognize myself in L'Oréal, my sense of who I am matches my sense of L'Oréal.
- 39. L'Oréal has a distinctive identity. L'Oréal stands out from its competitors.
- 40. L'Oréal is a first-class, high-quality company.
- 41. I feel like I know very well what L'Oréal stands for.
- 42. It is difficult to get a clear sense of what L'Oréal stands for from its actions.

Variable 4: Trust (*Swaen & Chumpitaz, 2008*)

- 43. L'Oréal's products give me a sense of security.
- 44. I trust the quality of L'Oréal's products.
- 45. Buying L'Oréal's products is a quality guarantee.
- 46. L'Oréal is interested in its customers.
- 47. L'Oréal is forthright in its dealing with consumers.
- 48. L'Oréal is honest with its customers.

Variable 5: CSR scale (*Turker, 2009*)

- 49. It seems that L'Oréal participates in activities which aim to protect and improve the quality of the natural environment.
- 50. L'Oréal makes investments to create a better life for future generations.
- 51. It looks like L'Oréal implements special programs to minimize its negative impact on the natural environment.

52. L'Oréal targets a sustainable growth which considers to the future generations.
53. It seems that L'Oréal supports the non-governmental organizations working in the problematic areas.
54. L'Oréal contributes to the campaigns and projects that promote the well-being of the society.
55. L'Oréal encourages its employees to participate in voluntarily activities.
56. L'Oréal emphasizes the importance of its social responsibilities to the society.
57. L'Oréal's policies encourage the employees to develop their skills and careers.
58. The management of L'Oréal primarily concerns with employees' needs and wants.
59. L'Oréal implements flexible policies to provide a good work and life balance for its employees.
60. The managerial decisions related with the employees are usually fair.
61. L'Oréal supports employees who want to acquire additional education.

Variable 6: Perceived motives of L'Oréal investing in CSR activities (*Swaen & Chumpitaz, 2008*)

L'Oréal gets involved in these environmental and social activities...

62. ... because they want to give something back to society.
63. ... because they are fully-fledged members of society.
64. ... by pure altruism.
65. ... because this gives them good publicity.
66. ... because this lets them increase profits.
67. ... because this gets them more customers.

Survey: CSR – The Body Shop

Introduction

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- ☐ Male

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- ☐ 36-45
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- 3. How satisfied or dissatisfied are you with the way The Body Shop presents itself?
- 4. To what extent do you perceive The Body Shop as customer oriented?
- 5. How positive or negative do you perceive the way in which others speak of The Body Shop?

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10. The Body Shop develops innovative products.

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11. The Body Shop seems to make an effort to create new jobs.
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14. The Body Shop appears to support good causes.

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17. The Body Shop employs people who treat customers courteously.
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19. The Body Shop is concerned about its customers.
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23. The Body Shop seems to treat its people well.
24. The Body Shop seems to have a management that pays attention to the needs of its employees.
25. It seems that The Body Shop has good employees.
26. The Body Shop seems to maintain high standards in the way it treats its people.
27. The Body Shop seems to be well managed.

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- 32. The Body Shop appears to make financially sound decisions.
- 33. The Body Shop has a strong record of profitability.
- 34. The Body Shop is doing well financially.
- 35. The Body Shop seems to have a clear vision of its future.
- 36. The Body Shop appears to be aware of its responsibility to society.

Variable 3: Attractiveness (*Sebastian Arendt and Malte Brettel, 2010*)

- 37. I like what The Body Shop stands for, The Body Shop has an attractive identity.
- 38. I recognize myself in The Body Shop, my sense of who I am matches my sense of The Body Shop.
- 39. The Body Shop has a distinctive identity. The Body Shop stands out from its competitors.
- 40. The Body Shop is a first-class, high-quality company.
- 41. I feel like I know very well what The Body Shop stands for.
- 42. It is difficult to get a clear sense of what The Body Shop stands for from its actions.

Variable 4: Trust (*Swaen & Chumpitaz, 2008*)

- 43. The Body Shop's products give me a sense of security.
- 44. I trust the quality of The Body Shop's products.
- 45. Buying The Body Shop's products is a quality guarantee.
- 46. The Body Shop is interested in its customers.
- 47. The Body Shop is forthright in its dealing with consumers.
- 48. The Body Shop is honest with its customers.

Variable 5: CSR scale (*Turker, 2009*)

- 49. It seems that The Body Shop participates in activities which aim to protect and improve the quality of the natural environment.
- 50. The Body Shop makes investments to create a better life for future generations.

51. It looks like The Body Shop implements special programs to minimize its negative impact on the natural environment.
52. The Body Shop targets a sustainable growth which considers to the future generations.
53. It seems that The Body Shop supports the non-governmental organizations working in the problematic areas.
54. The Body Shop contributes to the campaigns and projects that promote the well-being of the society.
55. The Body Shop encourages its employees to participate in voluntarily activities.
56. The Body Shop emphasizes the importance of its social responsibilities to the society.
57. The Body Shop's policies encourage the employees to develop their skills and careers.
58. The management of The Body Shop primarily concerns with employees' needs and wants.
59. The Body Shop implements flexible policies to provide a good work and life balance for its employees.
60. The managerial decisions related with the employees are usually fair.
61. The Body Shop supports employees who want to acquire additional education.

Variable 6: Perceived motives of The Body Shop investing in CSR activities (*Swaen & Chumpitaz, 2008*)

The Body Shop gets involved in these environmental and social activities...

62. ... because they want to give something back to society.
63. ... because they are fully-fledged members of society.
64. ... by pure altruism.
65. ... because this gives them good publicity.
66. ... because this lets them increase profits.
67. ... because this gets them more customers.

Appendix III: Reoccurring themes in the web associated with L'Oréal



Appendix IV: Reoccurring themes in the web associated with The Body Shop

